

---

## REGULATION

---

### ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China is governed by the Company Law of the PRC (中華人民共和國公司法) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The PRC Company Law generally governs two types of companies – limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed. The PRC Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The approval, establishment operation and other issues of a wholly foreign-owned enterprise are governed by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and Implementation Regulation under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Catalogue**”), which was jointly issued by the Ministry of Commerce (商務部) and the National Development and Reform Commission (國家發展和改革委員會) in 2002, as amended in 2004, 2007 and 2011. The current effective Foreign Investment Catalogue was issued on 24 December 2011, and came into force on 30 January 2012. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry.

### FOREIGN EXCHANGE REGULATION

Pursuant to the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996 as amended on 14 January 1997 and 1 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by the People’s Bank of China (“**PBOC**”) on 20 June 1996 and became effective on 1 July 1996 and other PRC rules and regulations on currency conversion, foreign invested enterprises are permitted to convert their after tax dividends into foreign exchange and to remit such foreign exchange out of their foreign exchange bank accounts in the PRC. If foreign invested enterprises require foreign exchange for transactions relating to current account items, they

---

## REGULATION

---

may, without approval of SAFE, effect payment from their exchange account or convert and pay at the designated foreign exchange banks, upon provision of valid receipts and proof. However, convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contributions, is still subject to restriction, and prior approval from SAFE or its relevant branches must be sought.

### **Dividend distribution**

The principal laws and regulations regulating the dividend distribution of dividends by foreign invested enterprises in the PRC include the PRC Company Law (《中華人民共和國公司法》), as amended on 27 October 2005, the Wholly Foreign-owned Enterprise Law promulgated on 31 October 2000 and its implementation regulations promulgated on April 12, 2001, the Equity Joint Venture Law issued on 15 March 2001 and its implementation regulations amended on 22 July 2001 and the Cooperative Joint Venture Law issued on 31 October 2000 and its implementation regulations promulgated on 4 September 1995.

Under the current regulatory regime in the PRC, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profit, if any, determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as general reserves (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

## **TAXATION**

### **Income tax**

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (“**FIE Tax Law**”) which was promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local income tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempt from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a fifty percent reduction in the following three consecutive years.

---

## REGULATION

---

According to the EIT Law, which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. The existing tax exemptions, reductions and preferential treatment which had been enjoyed by foreign-invested enterprises were abolished unless otherwise specified.

On 26 December 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy under the Enterprise Income Tax Law of PRC (國務院關於實施企業所得稅過渡優惠政策的通知) (the “**Transition Circular**”), which was promulgated and implemented on December 26, 2007. Under the EIT Law and the Transition Circular, enterprises that were established before 16 March 2007 and already enjoyed preferential tax treatments shall continue to enjoy them (i) in the case of preferential tax rates: the tax rate shall gradually increase from 15% to 25% for a period of five years from 1 January 2008 (ii) in the case of preferential tax exemption or reduction for a specified term, for instance, the two-year EIT exemption followed by a fifty percent reduction in the following three consecutive years or the five-year EIT exemption followed by a fifty percent reduction in the following five consecutive years may, after the implementation of the EITL, continue to enjoy the relevant preferential treatments under the preferential measures and the time period prescribed in the former tax law, administrative regulations and relevant documents, until the expiration of such term. However, if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits, its preferential time period shall be calculated from 2008.

Profit tax and net equity tax are chargeable in Switzerland. The principal regulations governing income tax in Switzerland are the Federal Act on Direct Federal Taxes of 14 December 1990 and the Federal Act on the Harmonisation of the Direct Cantonal and Communal Taxes of 14 December 1990. The profit tax is charged at a rate of 8.5% of net profit at federal level, and at a rate ranged from 10% to 30% of net profit at cantonal and communal level. Corporate tax on equity is also charged at cantonal and communal level at a rate ranging from 0.5% to 5% depending on the size of the net equity.

### **Withholding tax on dividend distribution**

Before the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include FIE Tax Law together with its Implementation Rules. Under these regulations, dividends paid to a FIE’s foreign investors are exempt from withholding tax. However, this provision has been revoked by the EIT Law. According to the EIT Law and its Implementation Rules, generally a withholding tax rate of 10% will be imposed on dividends paid to non-PRC resident investors, effective from 1 January 2008. The EIT tax rate on the dividends may be reduced pursuant to a tax treaty between the Mainland and the jurisdictions in which non-PRC investors reside.

---

## REGULATION

---

According to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), effective on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5%, if the Hong Kong enterprise is the “beneficial owner” and holds at least 25% of equity interests of the PRC enterprise directly. According to the Notice of the State Administration of Taxation on the Issues relating to the Administration of the Dividend Provision in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated on 20 February 2009, the corporate recipients of dividends distributed by Chinese enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

According to the Federal Act on Withholding Taxes of 13 October 1965, withholding tax on distribution of dividends and certain interest (including license fees) is chargeable in Switzerland at the rate of 35%. Under the Act, withholding tax can be reclaimed by Swiss recipients who declare the distribution of dividends in their taxable income. Foreign investors can reclaim the withholding tax according to the double taxation treaty (if any) entered into between Switzerland and the place of residence of the foreign investors. On 6 December 2010, Switzerland and Hong Kong have entered into a double taxation treaty which came into force on 15 October 2012, pursuant to which the withholding tax on distributions from subsidiaries and interests will be reduced to 0% and is applicable from 1 January 2013 with regard to Swiss taxes, and from 1 April 2013 with regard to Hong Kong taxes. Any withholding tax on the dividends receivable from Balco Switzerland incurred before 1 January 2013 may reduce the profits of our Group. For details, please refer to the section headed “Risk Factors – The dividends we receive from our Balco Switzerland may be subject to withholding tax” in this prospectus.

### **Value added tax**

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax (《中華人民共和國增值稅暫行條例》) (“**VAT Regulations**”) promulgated by the State Council which was subsequently amended and took effect on 1 January 2009 and its Implementation Rules, all entities and individuals in the PRC engaged in the sale of goods, the supply of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“**VAT**”). VAT payable is calculated as “output VAT” minus “input VAT.” The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product type.

In Switzerland, pursuant to the Federal Act on Value Added Tax of 12 June 2009, value added tax is chargeable at federal level at the normal rate of 8% on sales in Switzerland, while exports are exempt from value added tax.

---

## REGULATION

---

### Business tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax (《中華人民共和國營業稅暫行條例》) promulgated by the State Council which was subsequently amended and took effect on 1 January 2009 and its Implementation Rules, business that provide services including entertainment business, assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3% to 20% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

### ENVIRONMENTAL PROTECTION

The major laws and regulations in PRC concerning environmental protection include: Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”), Appraising of Environment Impacts Law of the PRC (中華人民共和國環境影響評價法) (“**Appraising of Environment Impacts Law**”), Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法) (“**Atmospheric Pollution and Prevention Law**”), Prevention and Control of the Water Pollution Law of the PRC (中華人民共和國水污染防治法) (“**Water Pollution and Prevention Law**”), Prevention and Control of the Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法) (“**Noise Pollution and Prevention Law**”), Prevention and Control of the Solid Waste Pollution Law of the PRC (中華人民共和國固體廢物污染環境防治法) (“**Solid Pollution and Prevention Law**”), and Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例).

Environmental Protection Law (promulgated by the Standing Committee of the National People’s Congress (the Standing Committee of NPC) and effective as from 26 December 1989) specifies that any construction project shall comply with state regulations on administration of construction projects that pollute the environment. Enterprises and public institutions discharging pollutants shall report and register pollutants according to provisions of competent authority of environmental protection under the State Council and discharge pollutants in accordance with relevant pollutant discharge standard formulated by the competent authority of environmental protection under the State Council and local people’s governments. Enterprises and public institutions discharging pollutants in excess of the specified national or local discharge standards shall pay fees for excess discharge according to state provisions and be responsible for pollution elimination and control. For enterprises and public institutions causing serious environmental pollution, relevant competent authorities of environmental protection shall have the right to require them to eliminate and control the pollution within a specified deadline, and for enterprises and public institutions failing to complete the pollution elimination and control within the specified deadline, the relevant authority of environmental protection may impose a fine thereon or issue an order of business suspension and shutdown according to the resulting pollution in addition to charging fees for excess discharge pursuant to state provisions. In respect of enterprises violating Environmental Protection Law, the relevant competent authority of environmental protection may impose administrative penalty thereon including fines and orders of business suspension and shutdown according to the extent of violation and circumstances thereof. Meanwhile, any enterprise causing environmental

---

## REGULATION

---

pollution hazard shall be liable for eliminating the hazard and compensating the entities or individuals directly damaged. If violation of the said provision leads to severe environmental pollution accident and therefore significant property losses or personal injury, the persons who are directly responsible shall be charged for criminal liability according to laws.

In accordance with Appraising of Environment Impacts Law promulgated by the Standing Committee of NPC on 28 October 2002 and effective as from 1 September 2003 and Regulations on Administration of Construction Project Environmental Protection promulgated by the State Council and effective as from 29 November 1998, the State exercises the system of assessing the environmental impacts of construction projects. According to the environmental impacts of construction projects, the State exercises classified administration over construction project environmental protection: (1) for construction projects likely to cause significant impact on the environment, an environmental impact report shall be worked out, containing comprehensive and detailed assessment of the pollution arising from construction projects and the environmental impacts thereof; (2) for construction projects which may slightly affect the environment, an environmental impact statement shall be worked out, containing an analysis or project-specific assessment of the pollution arising from construction projects and the environmental impacts thereof; (3) where the impact of any construction project on the environment is insignificant so that it is unnecessary to carry out environmental impact assessment, an environmental impact registration form shall be completed. Construction project environmental impact report, statement or registration form shall be reported by the construction entity to the competent authority of environmental protection for approval. Moreover, the facilities for the prevention and control of pollution of a construction project shall be designed, constructed and put into operation or use simultaneously with the principal part of the project. After completion of the project, the construction entity shall also apply to the environmental protection authority for final acceptance of construction. The said construction project may be put into operation or use only after it is checked and accepted as satisfactory.

The PRC Government has promulgated a series of laws on discharge of atmospheric pollutants, waste water, solid wastes and noise to the environment, including Atmospheric Pollution and Prevention Law (latest amended on 29 April 2000, and effective as from 1 September 2000), Water Pollution and Prevention Law (latest amended on 28 February 2008, and effective as from 1 June 2008), Noise Pollution and Prevention Law (promulgated by the Standing Committee of NPC on 29 October 1996 and effective as from 1 March 1997) and Solid Pollution and Prevention Law (latest amended on 29 December 2004 and effective as from 1 April 2005), which have respectively specified the prevention and control and supervision and administration of atmospheric pollution, water pollution and pollution from noise and solid wastes. Pursuant to the aforesaid laws, in case of new construction, expansion and reconstruction of projects that discharge pollutants to the atmosphere or water body, and/or produce noise or solid wastes, the relevant enterprise shall observe the state regulations concerning administration of construction project environmental protection and make pollutant discharge declaration according to law and discharge pollutants in accordance with regulations.

---

## REGULATION

---

With regard to enterprises violating the aforesaid laws, the relevant competent authorities of environmental protection may impose administrative penalties on them in accordance with laws and regulations. Any enterprises that have caused an environmental pollution hazard shall be responsible for eliminating it and compensating the entities or individuals directly damaged.

Environmental protection in Switzerland is principally governed by the Federal Act on the Protection of the Environment of 7 October 1983, which is the basis for a broad range of legislation of environmental regulations for the protection of soil, air, waters, standards for noise control, waste disposal and management, radiation protection and standards for manufacturing and general handling of pollutants. The respective competent authorities in Switzerland supervise the compliance of the relevant regulations by way of stipulating and granting authorisations, systematic and frequent controls and imposition of sanctions, including, among others, fines and restoration orders in case of a violation of the regulations. The general principle is that the polluters should bear the costs for the necessary environmental protection measures.

### LABOUR AND SOCIAL INSURANCE

The Labour Law of PRC (中華人民共和國勞動法) promulgated by the Standing Committee came into effect on 1 January 1995 (“**Labour Law**”) and other relevant laws provides for the working time, remuneration, holiday and other issues concerning labours’ benefits and obligations. According to the Labour Law, the policy of the wages shall be paid according to the performance, equal pay for equal work, lowest wage protection and special labour protection for female worker and juvenile workers shall be implemented. The Labour Law also requires the employer to establish and perfect an occupational safety and healthy system, and enter into employ agreements with its employees.

According to the Labour Contract Law of PRC (中華人民共和國勞動合同法) promulgated by the Standing Committee on 29 June 2007 and came into effect on 1 January 2008 (“**Labour Contract Law**”) and its implementation regulations, enterprises established in PRC shall enter into employment agreements with their employees to provide for the term, job duties, working time, holidays, payments, social insurance and other matters that shall be included as required by laws and regulations. Both employers and employees shall duly perform their duties in accordance with the employment agreements.

Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from 5 to 15 days save for certain circumstances, depending on their length of service. Employees who waive such vacation at the request of employers shall be compensated at three times their daily wage income for each waived vacation day.

---

## REGULATION

---

Pursuant to the Social Insurance Law of the PRC (社會保險法) promulgated by the Standing Committee on 28 October 2010 which became effective on 1 July 2011, the State establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. If an employing entity fails to pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution may order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the overdue payment is not made within the stipulated period, the relevant administration department may impose a fine from one to three times the amount of overdue payment.

Pursuant to the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》) which was amended and came into effective on 24 March 2002, employers are required to register with the local housing fund management center and set up a special housing fund account with an entrusted bank. Employers are also required to contribute no less than 5% of each employee's average monthly salary in previous year to the housing fund on behalf of their employees fully and timely. The subsequent late registration or no registration may be subject to the fine above RMB10,000 and below RMB50,000.

### SAFE PRODUCTION

The PRC Work Safety Law (《中華人民共和國安全生產法》) (the “**Work Safety Law**”), was promulgated on 29 June 2002, came into effect on 1 November 2002 and was revised on 27 August 2009. Pursuant to the Work Safety Law, the production and business operation entities must be equipped for safe production as provided in laws, administrative regulations, national standards and industry standards.

Generally, any production and business operation entity with more than 300 employees shall establish an independent administrative body of safe production or have full-time personnel for the administration of safe production. If the enterprise has fewer than 300 employees, it shall have full-time or part-time personnel for the administration of safe production or entrust engineering technicians who have been equipped with the relevant professional technical qualifications as provided by the state to provide services in regard to the administration of work safety. Violations of the PRC Work Safety Law may result in the imposition of fines and penalties, the suspension of operation, an order to cease operation, and/or criminal liability in severe cases.



---

## REGULATION

---

### PRODUCT QUALITY

According to the Product Quality Law of PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated by the Standing Committee on 22 February 1993 and as amended on 8 July 2000. Pursuant to the Product Quality Law, a producer shall have the following obligations:

- Products shall be free from any irrational dangers threatening the safety of people and property. If there are State standards or trade standards for ensuring the health of the human body and safety of lives and property, the products shall conform to such standards. Products shall have the property they are due to have, except cases in which there are explanations about the defects of the property of the products. Products shall tally with the standards prescribed or specified on the packages and with the quality specified in the instructions for use or shown in the providing samples;
- The marks on the products or the package of products shall be true to the fact and satisfy the relevant requirements;
- For products which are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the package thereof shall meet the corresponding requirements, carry warning marks or warnings written in Chinese or points of attention in handling in accordance with the relevant provisions of the state;
- Producers are forbidden to produce products eliminated according to State laws or decrees;
- Producers are not allowed to fabricate the place of origin or fabricate or use the names and addresses of other producers;
- Producers are not allowed to fabricate or use the quality marks such as certification marks and fine quality product marks;
- Producers shall not adulterate their products or pose fake products as genuine or shoddy products as good or non-standard products as standard. Violation of the Product Quality Law may result in the imposition of fines, warning, making corrections, confiscating illegal proceeds and ordering to suspend business for rectifications. If the circumstances are very serious, the seller or producer’s business license may be revoked. Criminal liability may be incurred if the case constitutes a crime.

---

## REGULATION

---

In Switzerland, pursuant to the Federal Act on the Product Liability of 18 June 1993, a manufacturer is strictly liable for secondary damage (that is, personal injury and/or damage of privately-used property) caused by the use of defective products placed on the market. However, the liability does not extend to the damage of the defective product itself. The limitation period for bringing legal action shall be three years from the date when the claimant has knowledge of the defect, the damage and/or the identity of the manufacturer. Such right of claim shall be forfeited 10 years after the date on which the defective product is placed on the market.

In Switzerland, the Federal Act on Foodstuffs and Utility Articles of 9 October 1992 regulates the production, trade, sale and export of utility articles, including watch straps, which come into contact with body. Under the Act, such utility articles must not present a health risks to users when they are used for intended purpose or under normally expected manner. The Act also regulates utility articles by stipulating requirements including but not limited to their labeling and use of materials. Pursuant to the Ordinance on Foodstuffs and Utility Articles of 23 November 2005, utility articles which do not comply with the required standards are barred from being exported.

### INTELLECTUAL PROPERTY RIGHTS

#### Trademark

According to the Trademark Law of PRC (中華人民共和國商標法) (the “**Trademark Law**”) which was promulgated by the Standing Committee on 23 August 1982 and became effective on 1 March 1983 and latest amended on 27 October 2001 and became effective on 1 December 2001 and its implementation rules, a registered trademark refers to the trademark approved and registered by the trademark office. The Trademark Office shall make the preliminary examination and approve an application to register a trademark that conforms with the relevant provisions of the Trademark Law and shall publicly announce it. When the period of three months is due and no objection has been filed, the application shall be approved for registration, a certificate of registration shall be issued. The Trademark Office shall notify the applicant in writing if the application has been rejected and not been published. The applicant who is dissatisfied with the decision may apply to the Trademark Review and Adjudication Board (商標評審委員會) for a review within 15 days from the receipt of the notification. The Board shall make a decision and notify the applicant in writing. In the event that the applicant is dissatisfied with the decision of the Trademark Review and Adjudication Board, the applicant may appeal to the People’s Court within 30 days from receipt of the notification.

According to the Trademark Law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- Using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark;

---

## REGULATION

---

- Selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- Forging, manufacturing the marks without authorisation of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorisation;
- Changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- Causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any of the abovementioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and give the infringed party compensation. Also, under the Trademark Law, a trademark registrant may, by concluding a trademark licensing contract, authorise another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licensee uses the licensor's registered trademark, and the licensee shall guarantee the quality of the commodities on which the registered trademark is to be used.

Trademark protection in Switzerland is principally governed by the Federal Act on the Protection of Trademarks and Geographical Indications (the "**Trademark Act**") of 28 August 1992. A trademark can be protected in Switzerland by registration in respect of the classes of goods and services for which it is registered. Any graphical representations may be registered as trademarks in Switzerland unless the trademark is descriptive, deceptive or against public morality or law. Registration of trademarks shall be filed with the Swiss Federal Institute on Intellectual Property. Once the application is accepted, the registration will be valid for a period of 10 years from the date of the application subject to renewal every 10 years. According to the Trademark Act, a registered owner of trademark has the exclusive right to use and to freely dispose of the trademark with regard to the labeling of the particular goods or services, and subject to the import and export of goods, the exclusivity is limited to business purposes and protects the owner against the use of similar or identical marks in relation to the same and similar goods or service for which the trademark is registered. In order to maintain the protection of the trademark, it must be actually used. Where a trademark is not used for an uninterrupted period of five years, the owner might lose its title to the trademark. In the event of any infringement of the registered owner's exclusive right to use a registered trademark, the infringer may be subject to civil claims (including interim measures) and/or criminal sanctions such as fines and imprisonment.

---

## REGULATION

---

### **Protection of geographical indications**

Pursuant to the Ordinance on the Use of the Appellation “Switzerland” or “Swiss” for Watches of 23 December 1971, a watch may only be considered to be “Swiss” if (a) its watch movement is “Swiss” within the meaning of article 2 of the Ordinance (i.e. the watch movement has been assembled in Switzerland, inspected by manufacturer in Switzerland and the Swiss-manufactured components make up for at least 50% of the value, without considering the cost for assembly); (b) its watch movement is cased up in Switzerland; and (c) the final inspection of the watch by its manufacturer is carried out in Switzerland. Any violation of this Ordinance may result in criminal sanctions in accordance with the Trademark Act.

### **Patent**

The Patent Law of the PRC (中華人民共和國專利法) (the “**Patent Law**”) was promulgated by the Standing Committee on 12 March 1984 which became effective on 1 April 1985 and latest amended on December 2008 and became effective on 1 January 2009. According to the patent law, a patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of ten years in the case of a utility model and design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights.

Pursuant to the Federal Act on Patents of 25 June 1954, inventions may be patented in Switzerland by registration in the Swiss Federal Institute on Intellectual Property provided that they are novel, commercially applicable, original (being not derived from the prior art in an obvious way) and in compliance with public policy and law. A registered invention in Switzerland can be protected for a maximum period of 20 years starting from the date of filing of the registration. A patent owner has the exclusive right to forbid any third party to commercially use the invention. In the event of any infringement of the registered owner’s exclusive right to the patent, the infringer may be subject to civil and criminal sanctions.

### **Design**

Designs are protected in Switzerland by the Federal Act on the Protection of Design of 5 October 2001, pursuant to which the form of two-dimensional (patterns, characterised by lines, outlines, colour, etc.) or three dimensional (models) objects or parts of those objects may be protected as designed provided that they are new, distinguishable from existing designs in significant points and in compliance with public policy and law. Designs may be protected by registration in the Swiss Federal Institute on Intellectual Property. Upon registration of a design, it shall be valid for a period of five years subject to renewal of registration of four times. The holder of design has the exclusive right to forbid third parties to use such design for commercial purpose subject to the right of third parties to challenge the design at court anytime. In the event of any infringement of the registered owner’s exclusive right to the design, the infringer may be subject to civil and criminal sanctions.

---

## REGULATION

---

### PRC REGULATION ON FOREIGN INVESTORS INVESTING IN COMMERCIAL SECTORS

The Ministry of Commerce (the “**MOC**”) issued the Measures for Administration on Foreign Investment in Commercial Fields (the “**Measures of Administration**”) (外商投資商業領域管理辦法) on 16 April 2004 which took effect on 1 June 2004. The Measures of Administration abolished the original higher standard of requirements for foreign investors, allowed Sino-foreign equity joint venture, Sino-foreign cooperation and wholly foreign-funded commercial enterprises (collectively the “**Foreign-invested Commercial Enterprises**”) to engage in commission agency, wholesale, retail and franchise businesses. The incorporation of Foreign-invested Commercial Enterprises is subject to review and approval of the MOC and its authorized provincial ministry of commerce and should nevertheless meet the conditions stipulated by the relevant laws and regulations.

According to the Measures of Administrations and Notice of the Ministry of Commerce on Entrusting Local Departments to Check Foreign-Funded Commercial Enterprises (商務部關於委託地方部門審核外商投資商業企業的通知) issued by the MOC on 9 December 2005 which took effect on 1 March 2006, Foreign-invested Commercial Enterprises fulfilling the relevant conditions that were engaged in retail business by opening stores in provincial administrative regions or China national economic and technical development zones were generally subject to rights of review and approval of the local authorities:

- (1) no more than 3 stores and the total gross floor area of a single store shall not exceed 5,000 sq.m. and the total number of similar stores opened by the foreign investors through Foreign-invested Commercial Enterprises in the PRC shall not exceed 30;
- (2) no more than 5 stores and the total gross floor area of a single store shall not exceed 3,000 sq.m. and the total number of similar stores opened by the foreign-investors through Foreign-invested Commercial Enterprises in the PRC shall not exceed 50;  
or
- (3) total gross floor area of a single store shall not exceed 300 sq.m.

According to the Notice of Ministry of Commerce on Delegation of Approval Power for Foreign-Funded Commercial Enterprises (《商務部關於下放外商投資商業企業審批事項的通知》) issued and came into effective on 12 September 2008, all the establishments of foreign-funded commercial enterprises and all the alterations of established foreign-funded commercial enterprises shall be subject to review and approval by competent provincial Ministries of Commerce (省級商務主管部門), and report to the MOC. However, the MOC retains the approval power upon the enterprises which engage in non-store retailing via television, telephone, mail order (郵購), internet, vending machine, etc. or engage in the wholesale of audio-visual products or the sales of books, newspapers and magazines.

---

## REGULATION

---

According to Circular of the General Office of the Ministry of Commerce on Some Issues Concerning the Approval and Administration of Foreign Investment Projects of Sale through Internet and Automat (《商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知》) (the “**GOMC Circular**”), the internet sales is the extension of sales activities of enterprises on the internet and foreign investment production-oriented enterprises and commercial enterprises approved and registered according to law may directly engage in internet sales business. Where a foreign investment enterprise provides network services for other dealing parties by taking advantage of its own network platform, it shall apply to the Ministry of Industry and Information Technology for value-added telecommunications business license; where the enterprise directly engages in commodity sale by using its own network platform, it shall report to administrative department for telecommunications for the record.

Pursuant to Administrative Measures For Internet Information Service (《互聯網信息服務管理辦法》), which came into effective on 25 September 2000, internet information services include commercial and non-commercial services. The term “commercial internet information services” means service activities such as compensated provision to online subscribers through the internet of information services or website production, etc. The term “non-commercial internet information services” means the service activity of non-compensated provision to online subscribers through the internet of information that is in the public domain and openly accessible. And the State subjects commercial internet information services to a permit system and non-commercial internet information services to a record-filing system. No one may engage in the provision of internet information services without having obtained permission or carried out record-filing procedures.

In accordance with Telecommunication Regulations on People’s Republic of China (《中國人民共和國電信條例》) which came into effective on 25 September 2000 and the Classification Catalogue of Telecommunication Services attached hereto (《電信業務分類目錄》) (the “**Classification Catalogue**”), value-added telecommunications services means the telecommunications and information services provided through the public network infrastructure. Transaction processing services including on-line payment are included in the Classification Catalogue. A telecommunications service operating permit issued by the competent authorities in charge of the information industry must be obtained to engage in value-added telecommunications services listed in the Classification Catalogue in PRC. No organisation or individual may engage in telecommunications business activities without obtaining a telecommunications service operating permit. Moreover, the State Council’s department in charge of the information industry may make partial adjustments to the categories of telecommunications services listed in the Classification in light of actual circumstances and publish it anew.